ECONOMIC COMMENTARY

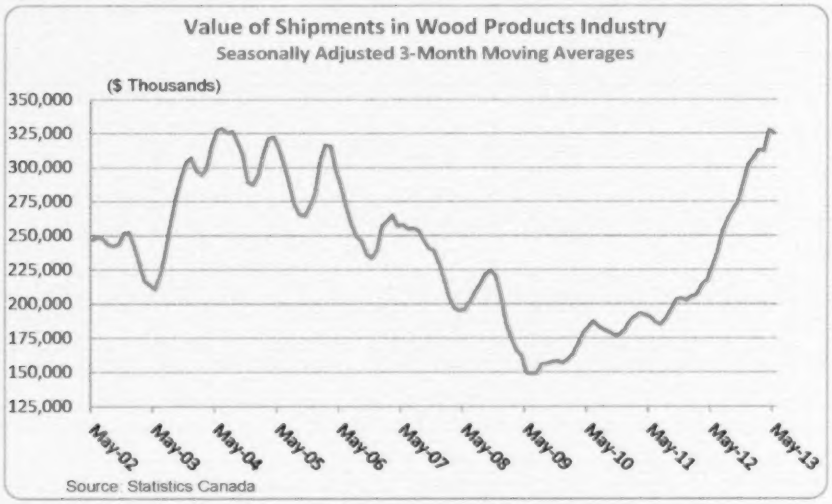
Alberta's Wood Products Sector is Staging a Strong Recovery

August 14, 2013

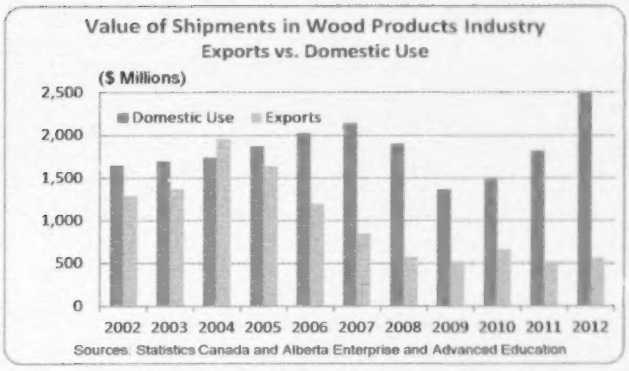
Highlights:
Alberta's wood products sector suffered severe revenue losses during the U.S. housing crisis and the ensuing global recession. However, this sector has staged a remarkable recovery since 2009, which was mostly the result of strong demand in Canada rather than in the U.S.

Alberta
Government

Alberta's wood products sector, which produces such products as lumber and oriented strand board (OSB), was hard hit by the US housing crisis and the global recession, as revenues tumbled by about one-half between 2004 and 2009. However, this sector has been staging a remarkable recovery since then and by April 2013 it actually surpassed its previous 2004 peak. In this commentary we will examine what caused this recovery and more specifically if the US housing rebound is contributing to it.



The US housing problems began in 2005 when the new housing market started its long collapse as over-building during the first five years of this century led to a major downward adjustment in housing starts thereafter. The severity of the US housing crisis intensified when the sub-prime mortgage crisis hit the resale market in about 2006-2007. Between 2005 and 2009 annual US starts tumbled from more than two million starts a year to about 500,000. As Canada is a major supplier of lumber and OSB to the US housing market, Canada's wood products industry was also hard-hit.

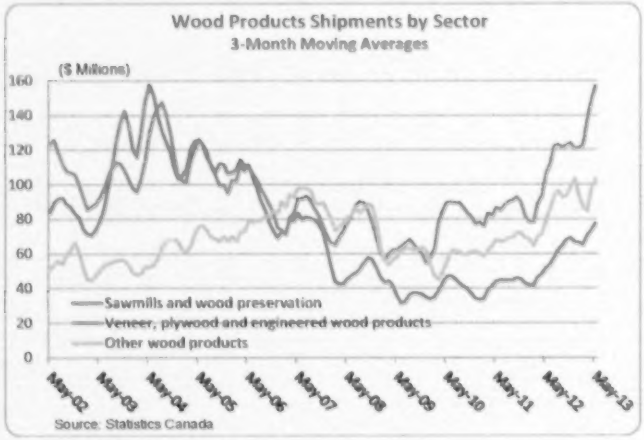


While the steep decline that Alberta's wood products sector faced roughly coincides with the collapse in US housing starts, its recovery is much stronger than the recovery thus far in US starts. In fact, if we break down the value of wood product revenues between exports and intra-Canada shipments, clearly the rebound has been in domestic consumption rather than in exports.

Although in 2004 more than half of Alberta's wood products went to export markets, primarily the US, by 2012 the export share of total shipments had fallen to less than 20%. It is likely that much of the demand growth came out of Alberta as between one-quarter and one-half of total Alberta wood products shipments stay within the province. Alberta housing starts increased by 65% between 2009 and 2012.

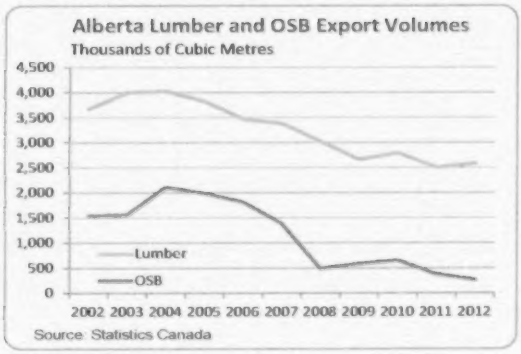
Alberta's wood products sector consists of three sub-sectors: sawmills and wood preservation (such as lumber); veneer, plywood and engineered wood products (such as OSB); and other wood products (such as manufactured mobile homes). While the first two sub-sectors are heavily dependent on the US export market, other wood products are primarily destined for Canadian markets.

Both the export oriented sawmills and wood preservation and veneer, plywood and engineered wood products sub-sectors started on a long decline in 2005 that lasted until 2010 – 2011. The more domestically oriented other wood products sub-sector started declining when the global recession hit in late 2008. By early 2013 the sawmills and wood preservation and other wood products sub-sectors had exceeded their previous peaks, but the engineered wood products sub-sector was still far below its previous peak.

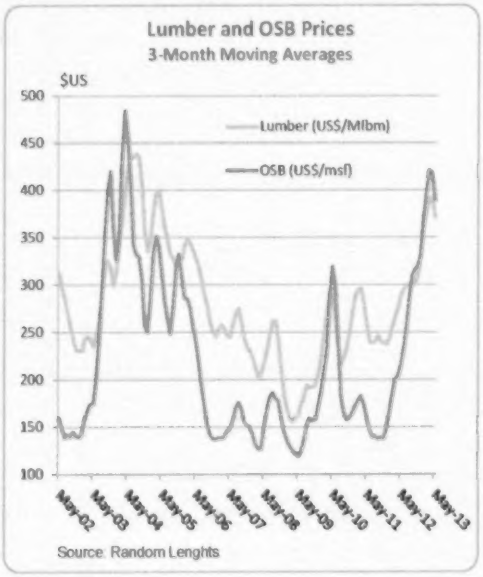


Export volumes of Alberta's largest sawmill commodity, lumber, dropped by about 40% between 2004 and 2011 before stabilizing in 2012. Most of Alberta's lumber exports still go to the US. Canadian lumber exports to China have increased 10-fold between 2006 and 2012, with almost all of this growth coming out of B.C. Although Alberta has not seen a large increase in its lumber exports to China yet, B.C.'s increased focus on China has resulted in greater export opportunities for Alberta producers in the US, especially in the Midwest.

Lumber prices fell by more than two-thirds between mid-2004 and early 2009, but have strengthened considerably since then. April 2013 lumber prices were only slightly lower than the prices that were realized during the 2004 peak period.



According to Statistics Canada, export volumes of OSB, the largest engineered wood product, tumbled by an estimated 88% between 2004 and 2012 to less than 300,000 cubic metres. However, according to forestry officials, the decline was less severe and export volumes never fell below 500,000 cubic metres per year.



OSB prices have been on even more of a rollercoaster, quadrupling between early 2002 and early 2004, then dropping by 75% between 2004 and early 2009. OSB prices have also largely recovered since then to levels that were about 20% lower in May 2013 than in 2004.

In summary, Alberta's wood products sector has staged a remarkable recovery since the 2009 recession, and sector revenues are now back to their 2004 peak level. However, this rebound is mostly the result of stronger domestic demand and not because of the improving US housing market. Alberta's wood product export values in 2012 were almost 70% lower than in 2004 while domestic demand reached record levels in 2012. However, a positive impact of the stronger US housing market has been on prices, as lumber and OSB prices have also staged a strong recovery.